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Message Text

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66
ACTION EUR-25

INFO OCT-01 ISO-00 SS-20 NSC-10 EB-11 FEA-02 SCI-06 AID-20

CEA-02 CIAE-00 COME-00 EA-11 FRB-02 INR-10 IO-14

NEA-10 NSAE-00 RSC-01 OPIC-12 SPC-03 TRSE-00 CIEP-02

LAB-06 SIL-01 OMB-01 DRC-01 /171 W
---------- 016603
R 181749Z JAN 74
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9815
INFO USMISSION OECD PARIS
USMISSION EC BRUSSELS

C O N F I D E N T I A L BONN 00957

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS
TAGS: EFIN, GW
SUBJECT: BUNDESBANK ON FRG CAPITAL CONTROLS

1. SUMMARY: BUNDESBANK OFFICIALS FEEL STRONGLY THAT FRG CAPITAL CONTROLS SHOULD NOT BE COMPLETELY ABOLISHED BUT SHOULD BE RELAXED ONLY IN A STEP-WISE MANNER AND THAT THE BUNDESBANK MUST RETAIN THE RIGHT TO REIMPOSE CONTROLS AT A MOMENT'S NOTICE IF DEEMED NECESSARY. THE CENTRAL BANK COUNCIL WILL DELIBERATE AGAIN ON JANUARY 22 AND A FINAL CABINET DECISION IS EXPECTED ON JANUARY 23. END SUMMARY

2. SENIOR BUNDESBANK AND MOST WORKING LEVEL OFFICIALS FEEL THAT FRG CAPITAL CONTROLS CAN NOW BE PARTIALLY RELAXED WITHOUT ANY DANGER TO DOMESTIC MONETARY POLICY. HOWEVER, OFFICIALS FEEL STRONGLY THAT CONTROLS SHOULD BE RELAXED ONLY GRADUALLY AND NOT COMPLETELY ABOLISHED. FURTHERMORE, THE BUNDESBANK IS INSISTENT THAT IT RETAIN THE TOOLS TO IMMEDIATELY REIMPOSE
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CAPITAL CONTROLS IF IT BE DEEMED NECESSARY WITHOUT

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HAVING TO AWAIT CABINET APPROVAL.

3. SOME WORKING LEVEL OFFICIALS HAVE ARGUED (APPARENTLY IN VAIN) WITHIN THE BANK THAT CAPITAL CONTROLS SHOULD NOT BE RELAXED AT ALL. THEY FEAR THAT A SUBSTANTIAL SHIFT INTO THE DM BY THE OIL PRODUCING COUNTRIES SEEKING TO DIVERSIFY THEIR OIL REVENUES, WHICH TO DATE ARE IN DOLLARS, AND FEAR THE "UNDESIRABLE" POSSIBILITY THAT, WITH NO OR INADEQUATE CAPITAL CONTROLS, THE DM COULD BE FORCED INTO THE ROLE OF A RESERVE CURRENCY.

4. SENIOR BANK OFFICIALS FORESEE THE SETTING ASIDE OF THE BARDEPOT BUT THE LIKELY RETENTION OF THE OTHER CONTROLS, POSSIBLY INCLUDING THE RESTRICTIONS ON SALES OF DOMESTIC SECURITIES TO FOREIGNERS. IN ORDER TO RETAIN A TOOL TO TIGHTEN CAPITAL CONTROLS QUICKLY, THE BUNDESBANK ALSO WANTS TO RETAIN THE CURRENT LICENSING REQUIREMENTS FOR ALL FOREIGN CREDITS TAKEN UP BY FRG RESIDENTS. UNDER THE CURRENT CIRCUMSTANCES, BROAD LICENSING AUTHORIZATIONS FOR CERTAIN TYPES OF CREDITS WOULD PROBABLY BE GIVEN BY THE BANK. THESE COULD BE QUICKLY REVOKED, HOWEVER, IF CONDITIONS CHANGED.

5. BUNDESBANK AND FRG ECONOMICS AND FINANCE MINISTRY OFFICIALS ARE ACTIVELY CONSULTING WITH EACH OTHER ON THE NATURE AND SCOPE OF FRG CAPITAL CONTROLS LIBERALIZATION. THE CENTRAL BANK COUNCIL WILL MEET ON JANUARY 22 (MOVED UP FROM THE ORIGINALLY SCHEDULED JANUARY 24 DATE) TO CONSIDER THIS ISSUE. THE FRG CABINET IS EXPECTED TO MAKE A FINAL DECISION THE FOLLOWING DAY.
HILLENBRAND

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